HOUSE BUDGET COMMITTEE

Democratic Caucus

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FREQUENTLY ASKED QUESTIONS ABOUT THE FEDERAL BUDGET

The following pages use the most recent data available to answer many frequently asked questions about the budget. Unless otherwise specified, all years referred to in this document are fiscal years. Fiscal year 2004 ends on September 30, 2004. For definitions of budget terms, see the glossary on the web site www.house.gov/budget_democrats.

1. What is the projected total spending in the U.S. budget for 2004?

According to recently released figures from the Congressional Budget Office (CBO), federal government spending (including Social Security) for 2004 will be $2.294 trillion. "On-budget" spending, which excludes Social Security and net spending of the Postal Service, is estimated to be $1.904 trillion. "Off-budget" spending, primarily Social Security, is estimated to be $391 billion.[1]

Major Categories of Spending - Estimated 2004 Outlays	Dollar Amount	Percentage of Federal Budget
Discretionary spending:		
Defense	$451 billion	20 percent
Non-Defense	$445 billion	19 percent
Entitlements and other "mandatory" except net interest:		
Social Security	$492 billion	21 percent
Medicare (net of premiums)	$262 billion	11 percent
Medicaid	$174 billion	8 percent
Other (e.g., Civil Service and Military Retirement, SSI, EITC, Veterans' Benefits, etc.)	$388 billion	17 percent
Miscellaneous receipts that offset spending (not including Medicare premiums)	$-75 billion	-3 percent
Net interest	$156 billion	7 percent

[1]Net off-budget spending consists primarily of spending for Social Security ($492 billion) minus offsetting receipts to the Social Security Trust Fund

2. How much tax revenue is the federal government expected to collect in 2005?

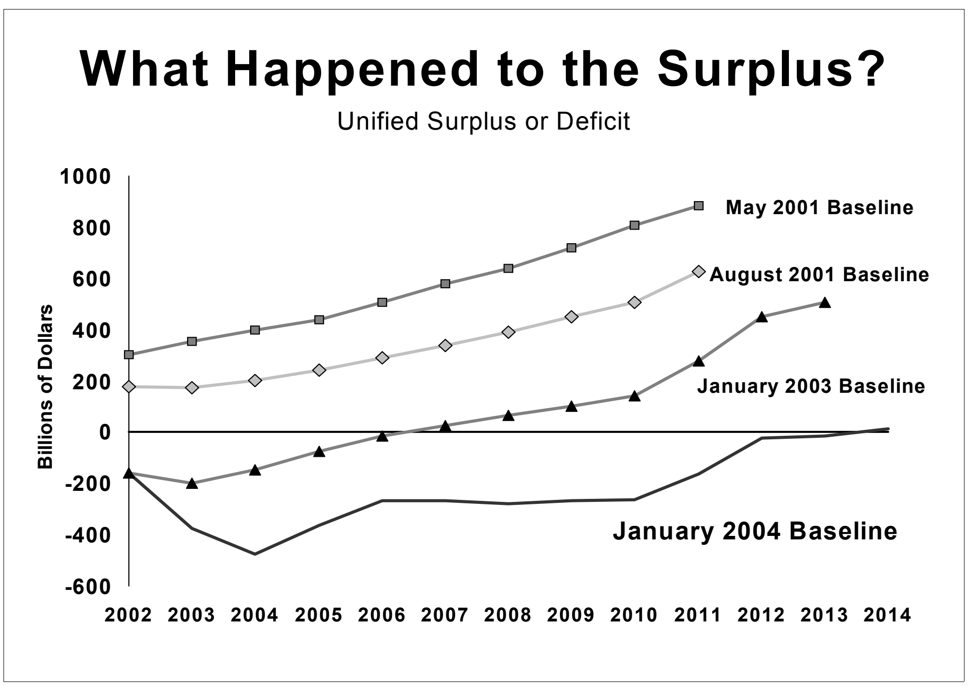
This week CBO estimated that total federal government revenues will be $2.049 trillion in 2005. Of that amount, $572 billion is from Social Security. In 2004, the federal government collected $1.817 trillion in revenues.

3. What is the estimated budget deficit for 2005?

CBO projects that the total (or "unified") budget deficit for 2005 will be $362 billion (revised from its August projection of $341 billion). The on-budget accounts, which exclude Social Security and net spending of the Postal Service, would run a deficit of $535 billion, after running a deficit of $631 billion in 2004. The 2004 total deficit will be $477 billion. These CBO figures are baseline projections, which assume no further changes in policy. The deficit picture worsens if additional policy changes, such as the tax cuts and spending proposals the President favors, are factored in.

4. What are the CBO projections about deficits and surpluses over the next ten years?

CBO projects that the total budget will be in deficit until 2014, the very end of its ten-year window, when it shows a small surplus of less than $13 billion. For the ten-year period (2005-2014), CBO shows a unified budget deficit of $1.893 trillion. The on-budget deficits will continue for the full ten years, with a $4.288 trillion deficit for the period.



Again, the CBO projections detailed above are baseline projections, which assume no changes in tax or spending policy. The deficit picture would worsen if expiring tax cuts are renewed or Congress repairs the alternative minimum tax.

5. Didn't past budget projections call for large surpluses? What happened?

In 2001, both CBO and the President's Office of Management and Budget (OMB) projected total budget surpluses of $5.6 trillion over the ten years 2002-2011. Since then, the budget picture has deteriorated dramatically. Large surpluses have become record deficits. CBO's latest projection shows the deficit for the same 2001-2011 period will be a $2.9 trillion deficit: an $8.5 trillion reversal.

Surplus Declines $8.5 Trillion Since 2001

Unified Budget Surplus, Trillions of Dollars

	2002-2011
January 2001	5.610
August 2001	3.397
January 2002	1.601
August 2002	0.336
January 2003	0.020
January 2004	-2.876

6. What is the estimated federal debt?

CBO estimates that federal debt held by the public will be $4.393 trillion at the end of 2004 and $6.399 trillion at the end of 2014. Early in the Bush Administration, both CBO and OMB projected that the federal government would pay off practically all of the publicly held debt within ten years. However, after the enactment of Republican tax cuts, the weakening of the economy, and the war against terrorism, CBO now projects an increase in the amount of publicly held debt.

Debt subject to limit, or debt held by the public and debt held in government accounts, will be $7.437 trillion at the end of 2004 and $12.918 trillion at the end of 2014.

7. What is the debt limit and will it need to be increased again?

The statutory limit on federal debt, which applies to the sum of publicly held debt and securities held in government trust funds, is currently $7.384 trillion. In 2001, the Administration projected that a much lower statutory limit on debt would not be breached until 2008, even with its proposed tax cuts. However, the debt outlook has deteriorated significantly since 2001 because of the reappearance of budget deficits, and so the debt limit has already been increased twice on the President's watch.

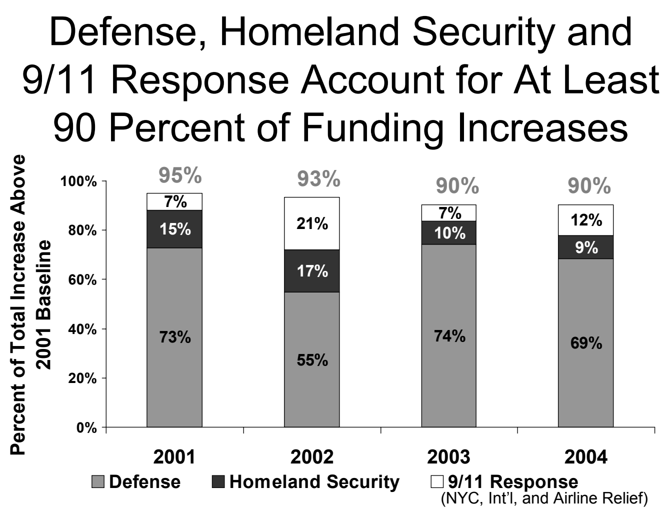
In June 2002, Congress passed, and the President signed, a bill raising the debt limit from $5.95 trillion to $6.40 trillion. Then, in May 2003, Congress passed, and the President signed, a second bill raising the debt limit to $7.384 trillion. Because of the large tax cuts of the last three years, continuing economic weakness, and spending associated with the war in Iraq, the federal government is expected to run up against the new, higher limit well before the end of this calendar year.

8. Can we control the deficit if we restrain the growth of certain funding to less than one percent, as the President proposes?

Domestic non-homeland security discretionary funding — that is, funding subject to annual Congressional appropriations excluding funding for defense, international affairs, and homeland security — has been virtually frozen for the past three years after adjusting for inflation. This category includes all funding for many important programs including education, NASA, the National Institutes of Health, the environment, and public health. It totals $341 billion for 2004, accounting for about one-sixth of the entire federal budget.

The President has said that, in order to control the deficit, his 2005 budget will restrain growth in this category to less than one percent, which is below the inflation rate. However, CBO projects the deficit will be $362 billion in 2005 — and $535 billion excluding Social Security. It is not credible to think we can control the deficit by simply looking at this small part of the budget, when eliminating it completely would not bring us to balance next year.

Growth in domestic non-homeland security funding has not been a primary cause of the deepening budget deficit. In fact, in the past four years, at least 90 percent of the increased funding above what CBO estimated in January 2001 has been for defense, homeland security, and post-9/11 response, including rebuilding New York City, airline relief, and international spending in response to terrorism.



9. How large is the estimated Social Security Trust Fund balance?

Last March, the annual report of the Social Security Trustees stated that the Social Security Trust Fund held $1.378 trillion in special Treasury securities at the end of calendar year 2002. These securities represent a standing legal claim on the U.S. Treasury to pay Social Security benefits in the future.

According to the most recent projections of the Social Security Trustees, the cost of Social Security benefits under current law will begin to exceed Social Security tax revenues in 2018. In 2028, the Social Security Trust Fund will begin to run an annual deficit, as the cost of benefits will exceed both Social Security revenues and interest earned on the bonds in the Social Security Trust Fund. By 2042, the bonds in the Social Security Trust Fund will have been exhausted, and the Social Security Trust Fund will be insolvent. However, in that year and for the indefinite future, Social Security would be able to pay between 70 and 75 percent of benefits promised by today's law with expected tax revenues.

10. What is the cost of Medicare, and how much does the new prescription drug benefit cost?

The Congressional Budget Office estimates gross federal mandatory spending for Medicare at $274 billion in 2003. However, once premiums paid by Medicare beneficiaries are taken into account, net federal mandatory spending is estimated at $245 billion in 2003.

Medicare consists of the Hospital Insurance Trust Fund (HI or Part A), which pays for hospital benefits and post-acute care, and the Supplementary Medical Insurance Trust Fund (SMI or Part B) which pays for physicians visits and other outpatient care. HI spending accounts for 55 percent of Medicare benefits and SMI accounts for 45 percent.

According to the 2003 Medicare Trustees Report, Medicare spending from the HI Trust Fund will begin to exceed Medicare revenues in 2013. In 2018, the Hospital Insurance (HI) Trust Fund will begin to run an annual deficit as the cost of benefits will exceed both Medicare revenues and the interest earned on the bonds in the HI Trust Fund. The trustees estimate that the HI Trust Fund will be insolvent by 2026, four years earlier than the projection in the 2002 Trustees Report. The SMI Trust Fund is financed by transfers from the general fund, and is by definition solvent.

The Medicare Prescription Drug, Improvement, and Modernization Act (P.L. 108-173) creates a prescription drug benefit in 2006, increases payments to managed care plans starting in 2004, and makes changes to Medicare provider payments and other parts of the program. CBO estimates that P.L. 108-173 will increase net Medicare outlays by $535 billion over the ten-year period of 2004 through 2013. However, other non-Medicare provisions brought CBO's estimate of the overall ten-year cost of the legislation down to $395 billion.

As of January 30, 2004, there were multiple press reports that the Administration estimates the cost of P.L. 108-173 at $543 billion over ten years, more than a one-third increase over CBO's estimate. Many health economists and budget analysts suggest a two part reason for the increase. First, the Administration predicts many more seniors will move into private plans under the new law, as compared to CBO's assumptions. Second, the law significantly increases payments to private plans. The combination of more people in private plans at higher payment rates results in a higher cost.

A precise explanation for the discrepancy is not yet available, but the Administration points to the difficulty in estimating future costs due to unknown variables such as the number of seniors who will join private plans, the number of seniors who will purchase the drug benefit, and the increase in pharmaceutical prices over time.